Minutes of the Executive Compensation Committee of
The Board of Directors of Carefirst, Inc., held June 12, 2001

Members Present: Joe Haskins, Ed Baran (by Telephone), Hanan Sibel and George Wilkes

Also Present: Dan Altobello, William Jews, and Don Barnes

The Compensation Committee held a special meeting to examine the associate benefit and compensation issues based on a strategic transaction with WellPoint. Don Barnes presented an updated presentation through the use of a handout which is made a part of these minutes.

Associate Benefits and Compensation

- ❑ **Retirement & Incentive Programs Comparison (WellPoint vs. CareFirst)**
  - WellPoint Retirement Program provides significantly less benefits to associates ($7.7 million)
    - Average Associate - 25% reduction
    - Longer service and older associates - as high as 50-75%

- ❑ Incentives not provided at WellPoint below the director level
    - Loss for associates from 4% to 15% of pay ($13.6 million)

Seek to Grandfather CareFirst associates in current retirement program
Reconcile incentive plan difference by retaining incentive program or increasing base pay

Executive Compensation

- ❑ **Retention Bonus**
  - For 60-70 managers without contracts
  - Purpose
    - ❖ Maintain stability of operations
    - ❖ Maintain value of company
    - ❖ Provide management support for transaction
    - ❖ Minimize risk of talent defection
  - Construction of Award
    - ❖ One-half (1/2) to one (1) times base salary based on position
    - ❖ Paid upon closing
  - Pre-closing liability

Title	Target Award	Percent Eligible	Eligible #	Total Payout
Sr. Vice President	1.0	100%	8	$1,895,000
Vice President	1.0	100%	23	$3,877,000
Director	0.5	30%	36	$1,697,000
			67	$7,469,000

Invest in 60-70 key management associates critical to smooth operations and successful integration

- **Committee recommended increasing Sr. VP to 1.5 times base salary**
- **Also recommended a retention bonus goes to CEO and EVPs if deal not concluded – 2.5 – 3.5 times salary**
- **Paid after one full year beyond the date the transaction is abandoned**

❑ Long Term Incentive Plan (LTIP)

- Features
  - 17 executive participants (approved by the Committee)
  - Grants paid out after three year performance period
  - Payouts are made 70% in cash and 30% deferred
- Change of Control provides for immediate payment (single trigger)
  - Deferred balances (30%) previously earned
  - Any outstanding (non-vested) grants
- Pre-closing liability

Participants	#	Deferred Balances	Active Grants	Total Payout
Executives with Contracts*	8	$3,604,398	$10,970,340	$14,574,738
Executives without Contracts	9	$1,076,949	$3,493,283	$4,570,232
	17	$4,681,347	$14,463,623	$19,144,970

Notes:
All amounts projected to April 1, 2003
LTI payout projected at $185

*including CEO

The Plan requires payout upon Change of Control (COC)

❑ *Deferred Accounts (30%) - previously earned from prior awards*

❑ *Active grants (70%) - currently in progress*

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- **SERP and Qualified Pension Plans**
  - Accrued benefits have been earned over a period of years
  - Contractual obligation
    - Pay SERP accrued balance upon termination of executive at COC
    - Additional "Executive Service" provided to three executives hired mid-career with prior executive experience
    - Accrued qualified plan benefit paid upon termination of executive
  - Current contract creates an incentive for executive to leave
  - Utilize merger incentive in exchange for deferral of SERP payment
  - Post closing liability

Plan	$	Payment Triggers
Accrued Qualified Plan	$1,866,744	Upon Termination of Executive
SERP Benefit	$6,555,000	Double Trigger upon COC/Termination
	$8,421,744	

- **Change of Control Payment**
  - Contractual Obligation
  - Currently pays out upon termination in connection with a Change of Control and substantial diminution of duties
  - Creates an incentive to leave the company
  - Utilize merger incentive in exchange for deferral of payment
  - Post-closing liability

Executives with Contracts	$	Payment Triggers
Multiple of Salary plus Annual Incentive	$12,168,207	Double Trigger upon COC/Termination
Pro-rated Current Year Incentive	$ 416,061	Double Trigger upon COC/Termination
Subtotal COC Cash Payments	$ 12,584,268	
Personal & Health Benefits	$ 514,957	Double Trigger upon COC/Termination
Total COC Cash & Benefits	$13,099,225	

- **Merger Incentive**
  - Utilize Merger Incentive in exchange for deferral of payment to future date (1-2 years)
    - Remove incentive for executive to leave immediately upon COC
    - Promote successful transition and company stability
    - Recognize a transaction favorable to stakeholders
  - The consideration given in exchange for:
    - Deferring Change of Control termination by executive
    - Postponing SERP and Qualified Plan Payouts
  - Requires an Amendment to current employment contracts
  - Pre-closing Liability

Participants	#	% of Price	Total Payout
CEO	1	0.7%	$ 9,100,000
Executive Vice Presidents	6	1.2%	$ 15,600,000
	7	1.9%	$ 24,700,000

Purpose of Incentive:

- *Consideration to Executive for deferring Change of Control, SERP and Qualified Plan Payouts*
- *Remove Incentive for executive to leave upon COC*
- *Incentive to close a favorable transaction*

Based on the review of the materials, the following decisions were made by the Compensation Committee:

1. Must maintain Associate Pension Plan for existing associates

2. Must mitigate the loss of an Associate Incentive Plan

3. **Approval of a retention bonus for key management**

4. **Executives would not be required to amend their existing contracts**

Respectfully submitted,

Sharon J. Vecchioni

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CareFirst

CareFirst
Compensation Committee

June 12, 2001

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CareFirst

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- ❑ Merger Incentive
- ❑ Public Relations Discussion

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Minutes of the Executive Compensation Committee of the Board of Directors of CareFirst, Inc., held April 26, 2001

Members Present: Joe Haskins, Ed Baran, (by Telephone), Hanan Sibel, George Wilkes

Also Present: Dan Altobello, William Jews, Sharon Vecchioni, Don Barnes, The HayGroup, Mark Muedeking, Piper, Marbury, Rudnick & Wolfe, LLP, and Stuart Smith, Credit Suisse

The committee held a special meeting to review the materials to be presented to the Board of Directors later that day on executive compensation.

Don Barnes of The HayGroup and Mark Muedeking of Piper, Marbury, Rudnick, and Wolfe, LLP, reviewed the presentation through the use of a handout which is made part of these minutes.

Merger Incentive and Retention Plans

Purpose

- Align the interests of management with the interests of the stakeholders
- Focus the attention of management on maintaining and maximizing value for stakeholders
- Ensure that management has the necessary incentives to drive the sale process through conclusion for the benefit of the stakeholders

Broad Array of Compensation Data Analyzed

- Total direct compensation of top 5 executives at Trigon and WellPoint analyzed - both companies have aggressive long-term incentives
- Cerulean Companies, Inc. (formerly BCBS of Georgia; merged with WellPoint) is most similar to CareFirst. Merger retention bonuses of Executive officers reviewed
- Compilation of 13 health care mergers prepared by Piper, Marbury, Rudnick, and Wolfe LLP analyzed
- 2000 Executive Compensation Advisory Services Survey of Merger and Acquisition Retention Awards reviewed. This survey has 130 organizations in it - 23% are financial services or healthcare companies.